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National
Home Center News ®

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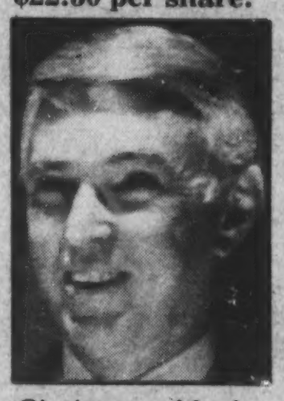
Court battle looms over Pay 'n Save buyout bid

By John Caulfield
NHCN senior editor

SEATTLE — A private group of investors that includes three top Pay 'n Save executives has won approval from that company's board of directors to purchase all the firm's stock—some 15.2 million outstanding shares—for $22.50 per share.



Chairman M. Lamont Bean backs Trump bid

However, two members of Pay 'n Save's nine-person board, who are the company's largest stockholders, voted against the pact, setting the stage for a potential counteroffer and, possibly, a court battle contesting the legality of the $355 million agreement.

The investment group that won the board's approval is led by The Trump Group, a diversified business and financial firm based in New York. Trump, headed up by South African-born Julius and Edmund Trump, specializes in leveraged buyouts, having attempted unsuccessfully to purchase Marshall Fields, the department store company in Chicago, two years ago. Among Trump's holdings is the Bonds men's discount clothing chain with stores on the East Coast.

Also in the investment group formed for the buyout are Pay 'n Save chairman M. Lamont Bean; its president, Bean's son-in-law, Ronald Erickson, and vice chairman Calvin Hendricks.

Following an all-night meeting Sept. 7 with investors, financial consultants and company executives, Pay 'n Save's board—on which Bean, Erickson and Hendricks sit—accepted the group's cash tender offer for all shares "subject to a minimum of approximately 51% of the out-

(Continued on page 57)

Hechinger cites 7 markets for 20-store, two-year blitz

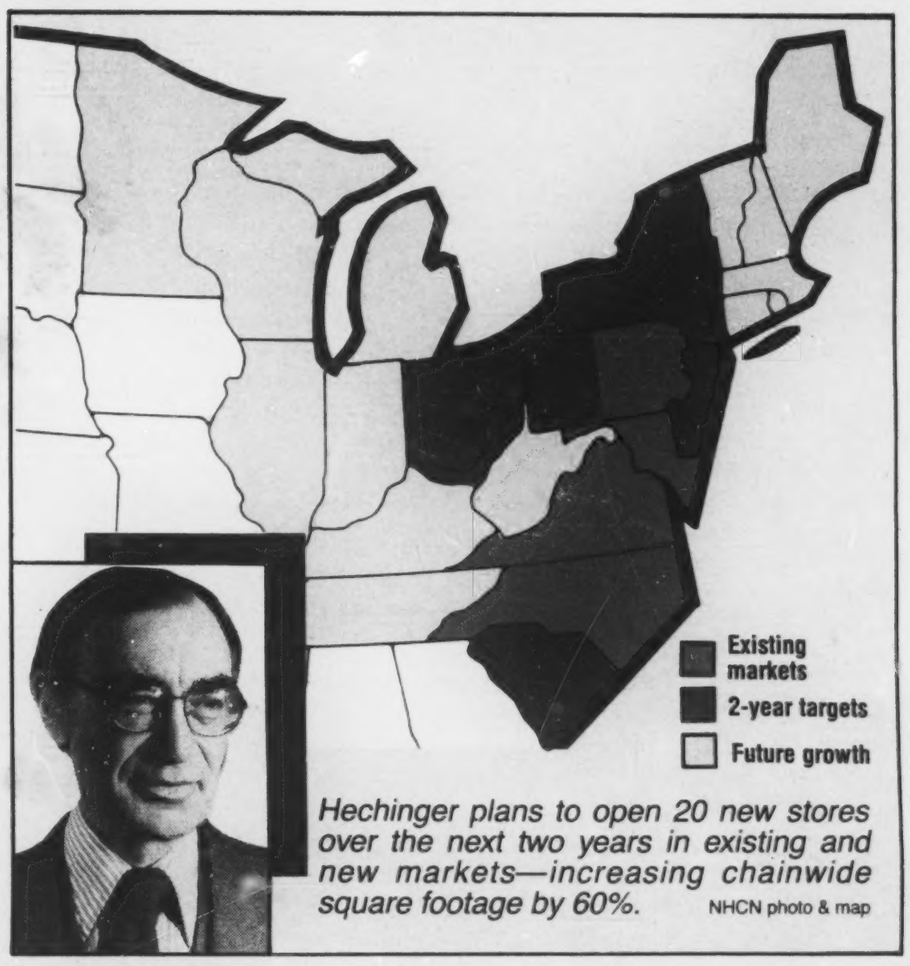
By Kenneth Schept
NHCN executive editor

LANDOVER, Md. — Hechinger, the 43-store mid-Atlantic chain is about to unleash a major expansion drive expected to land stores in seven new market areas within two years.

Early this month the chain filed with the Securities and Exchange Commission in order to issue $75 million in convertible subordinated debentures that would fund the opening of 20 stores in current markets as well as in Ohio, western Pennsylvania, Delaware, upstate New York, Long Island, New Jersey and South Carolina.

The preliminary prospectus, dated Sept. 4, also indicates that future expansion is being considered as far north as Maine and westward to Minnesota, including all of New England as well as the states of West Virginia, Kentucky, Tennessee, Indiana, Illinois, Michigan and Wisconsin.

The new markets are expected to be invaded with warehouse-type stores of 70,000-to-100,000 sq. ft., compared with the current 60,000-sq.-ft. Hechinger prototype, which may still be used to fill in existing markets. The chain's first warehouse store is set to open this month in Raleigh, N.C., with the next two openings planned for Greensboro, N.C., and Columbus, Ohio, during this fiscal year, which ends Jan. 31.



Hechinger plans to open 20 new stores over the next two years in existing and new markets—increasing chainwide square footage by 60%. NHCN photo & map

The change in store size and the rapid increase in number of units is expected to boost selling and storage space by 60% to 5.3 million sq. ft. in two years.

(Continued on page 57)

N.J. firm acquires 14.5% interest in Mich. Gen'l; seeks board seats

By Phillip M. Perry
NHCN associate editor

DALLAS — General Felt Industries, a Saddle Brook, N.J., carpet and furniture manufacturer, has acquired 14.5% of the stock of Michigan General, in a bid to gain a potentially controlling interest over that company and its subsidiary, Diamond Lumber.

"We purchased the stock first to make an investment, and second in order to gain some control over the company to protect our investment," said Robert Condon, finance vp for General Felt, a $400 million privately held firm.

With the purchase, General Felt has become the largest stock holder of Michigan General, which had a volume of $192 million last year. The acquisition of Diamond Lumber in September of last year brought Michigan General $81 million of that volume during the last three months of 1983.

Diamond Lumber, which has 97 retail stores, moved some $300 million worth of merchandise last year, and thus its operation is expected to boost Michigan General's volume this year to over $435 million, *NHCN* estimates.

The story behind General Felt's stock purchase originated last September, when Michigan General purchased Diamond Lumber from Diamond International for $110 million cash plus one million shares of Michigan General stock valued at $10 a share. Diamond International sold this stock to Valley Forge Ventures, Valley Forge, Pa.

General Felt purchased 1,348,200 shares from Valley Forge for $9 a share on Aug. 24 of this year, and also purchased an additional 300,000 shares on the open market for rates varying from $6.50 to $7⅝ a share. In all, General Felt paid $14.5 million for the Michigan General shares.

Condon said General Felt would most likely negotiate with Michigan General for some presence on the board of directors.

"When you have some seats on the board, you are listened to," he said.

Condon said it was "undecided" whether General Felt would seek a controlling interest in Michigan General, or be content with a partial control.

Michigan General said there has been no formal talks with General Felt concerning board seats.

"The only contact they have made with us was to ask whether I would be unfriendly to their purchase of the stock," said John R. Boudreau, president and ceo for Michigan General. "I told them they could spend their dollars as they saw fit.

"If they want to buy into their industry, let them," added Boudreau.

Boudreau said because he had received no indication that General Felt intended to take over Michigan General, his company was making no moves at this point to deal with such a

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NEWSBREAKS

HOMECRAFTERS EXPANSION IN DENVER. Homecrafters Centers, Pelham, Ala., has begun construction on 75,000-sq.-ft. build-to-suit warehouse home centers in Littleton and Lakewood, Colo., which are both scheduled to open in the spring of 1985.

INSIDE:

EXISTING SINGLE-FAMILY home sales fell in July for the third consecutive month . . . . . **Page 2**
SCOTTY'S WILL OPEN for business seven days a week, reversing a long-time company ban on Sunday hours 3
MIRROR PRODUCT sales have quickened as home centers offer consumers more diversified selections 3
HOME CENTERS are ringing up strong sales by selling higher-margin, top quality telephones 19
HOMEOWNERS WAREHOUSE's new computer system centralizes product tracking and inventory replenishment . . 25

EXPANSION PLANS PARED

Home Depot maps Detroit market entry

ATLANTA — In the aftermath of last month's 28% drop in Home Depot stock price that shook confidence in the company among investors and security analysts, executives for The Home Depot here are "angrier and more motivated" to reassert the chain's high-flying image on Wall Street and in the industry, says chairman, Bernard Marcus.

However, Wall Street's concern about the chain's future profitability were not assuaged by the announcement this month that the 21-store chain will open 15 stores in 1985, including its first entry above the Mason-Dixon line with four stores in Detroit. The store openings also include Home Depot's long-awaited debuts in Houston and southern California, which have been postponed to next year.

Analysts allude to the more than three percentage point dip in the chain's margins last quarter, the slowdown in this year's expansion plans from a proposed nine units to three, and the new and powerful companies—K mart and Service Merchandise, specifically—entering the home improvement market with warehouse stores for the first time as factors that could impede Home Depot's growth.

When Home Depot officials reported that its second quarter earnings for the period ended July 29 would be flat compared to 1983, a flurry of stock trading was touched off that saw the chain's price erode 6⅛ points to 16⅛ on Aug. 17. The actual earnings, released this month, came to $3.8 million, 15¢ per share; an 11.8% increase.

Institutional investors, who own more than 40% of the chain's stock, led a wave of selling as close to 2.6 million Home Depot shares were traded, making it the most active stock on the New York Exchange that day. Most analysts, who

(Continued on page 58)

NHCNews Briefs

Industry Update

Bocola leaves BE for Grossman's

IRVINE, Calif. — Top management changes at Builders Emporium continued last month with the departure of Martin R. Bocola, senior vp operations.

Bocola joined Grossman's 29-unit northwest division in San Carlos, Calif., as its new vp-operations, filling a job vacated by Robert Pacos, who was promoted to the division's general manager slot in December.

Bocola's decision to leave BE came about a month after the chain's president Tony Swies and general merchandise manager, Steve Capasso retired and resigned, respectively, amid charges from Wickes Cos., BE's corporate parent, that profit goals had not been met (*NHCN*, Aug. 27).

Bocola, 36, joined Grossman's on Sept. 10, three days after officially resigning as senior operations vp for Builders Emporium, the 59-unit home center division of Wickes Cos. based in Irvine, Calif. He had held that position since September 1983.

Pay 'n Save plans mini-auto depts.

SEATTLE — Pay 'n Save plans to carve out large areas in several of its home centers for an experimental "store within a store" selling auto supplies.

According to a company spokesman, Pay 'n Save will allocate around 5,000 sq. ft. of one Ernst Home Center unit in Spokane and two in Belleview, Wash., for the special department, about one-seventh of the total indoor selling space.

"These departments will actually be mini-Schuck's," said the spokesman. Schuck's Auto Supply is the 58-unit automotives specialty retail company Pay 'n Save purchased for $70 million worth of its stock in January.

However, the implementation of this experiment, as well as the proposed expansion of the Schuck's chain by 15 stores this year, could be put on hold, the spokesman said, pending the outcome of the takeover bid being made by a group of private investors that includes several top Pay 'n Save officials (*see story, p. 1*).

Scotty's, Depot eye St. Pete sites

ST. PETERSBURG, Fla. — The market is hot and getting hotter, particularly along one retail strip where both Scotty's and The Home Depot plan to open stores within a short distance of an existing Lindsley warehouse store.

The Lindsley store was converted from a traditional home center and opened here last spring (*NHCN*, May 7).

Home Depot reportedly plans to open its store across the street from the Lindsley warehouse next month.

Scotty's plans to break ground next month for a 60,000-sq.-ft. store that will be positioned adjacent to the Lindsley warehouse unit. The store is expected to open in about six months, according to Scotty's secretary, Harold Taylor.

Erb acquires $8M independent

BIRMINGHAM, Mich. — Erb Lumber, a chain of 29 stores that grossed $137 million in 1983, purchased Haggerty Lumber and Supply, an independent based in Walled Lake, Mich., on Aug. 13, for an undisclosed price.

Erb Lumber expects to maintain the name of the acquired firm, which had been in operation for 25 years and was doing a volume of some $8 million annually. However, Erb plans to make "some changes in the merchandising, primarily in the cosmetic area," according to Mallon.

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Vol. 10, No. 20 Sept. 24, 1984

Realty firm buys Chicago yard to support its building projects

CHICAGO — Lumber City, a single-store independent home center here was recently purchased by Inland Real Estate, a Chicago-based corporation with 20 companies in real estate and financial services

The 51,000-sq.-ft. home center, which is situated in Melrose Park, had total sales of $3.4 million last year. To date, 75% of sales are to consumers, and despite the new owner's intention of building up Lumber City's construction supply base, that side of the business will not be neglected.

"A 26-store, 12.5 acre shopping center is being built close to the store, so Lumber City was well positioned to increase business in both construction and DIY retailing," said company spokesman, Cheryl Campbell.

More important role

However, it is the construction end of the business that Inland is looking at first. The corporation has several construction-related subsidiaries currently involved with apartment construction, and views Lumber City as a way to supply the lumber and hardware needs of these entities.

Also, despite Lumber City's emphasis on DIY retailing, the store's executives are not strangers to the construction business. This originally family-owned company started in 1945 with a heavy emphasis on construction supply which developed into fabricating construction components like doors, during the 1960's and early 1970's.

However, that side of the business was sold about 10 years ago and the store concentrated on retailing to the DIY market. It currently has 13,000 stock keeping units in 18 departments—nine serving the consumer, nine the contractor. In talking about the acquisition, Lumber City's president, Joseph Joseph, said, "We have the experience and the materials required to get the job done."

Lumber City's management team is not being changed, and despite the aggressive tactics being shown by some of the store's direct competitors—Forest City and Courtesy—Inland does not plan any immediate store additions. "We might open another branch in the future," said Campbell, "but nothing has been planned yet."

Somerville acquires site in N.H. to build fourth unit

SOMERVILLE, Mass — Somerville Lumber recently acquired a site to build its fourth store, in Nashua, N.H. The store is slated to be built by early 1985.

"Talking about that store [Nashua] is somewhat premature as we've not yet started building it," said company vice president and general manager, Harold Cohen. "However, we do expect it to be somewhat similar to the West Bridgewater store," which opened last month.

That store, which had its grand opening on Sept. 16, cost Somerville about $7 million to build and stock.

All of Somerville's stores carry about 40,000 stock keeping units with an inventory worth some $3 million. The units are composed of a main store with adjacent warehouse.

"We're actively looking for new sites in the northeast," said Cohen. "The speed of expansion will be limited by how rapidly we will be able to effectively operate each new store in an effective manner. The way we execute operations in our new stores will be similar to the way we've been doing it in our old."

Somerville's third—West Bridgewater—store is "bigger and better" than previous units, and Cohen is equally optimistic about the yet unbuilt fourth store.

The West Bridgewater unit

(Continued on page 57)

Home resales plunge for 3rd month in row

WASHINGTON — The annual pace of existing single-family home sales fell in July for the third consecutive month to a seasonally adjusted rate of 2 78 million units, a 6.1% decline from the previous month, according to the National Assn. of Realtors.

July's home resale rate equalled the year-ago pace and was 33% below the peak annual rate of 4.15 million units in November 1978. Home resale activity hit its lowest ebb during the recession in August 1982 when the annual rate fell to 1.88 million units.

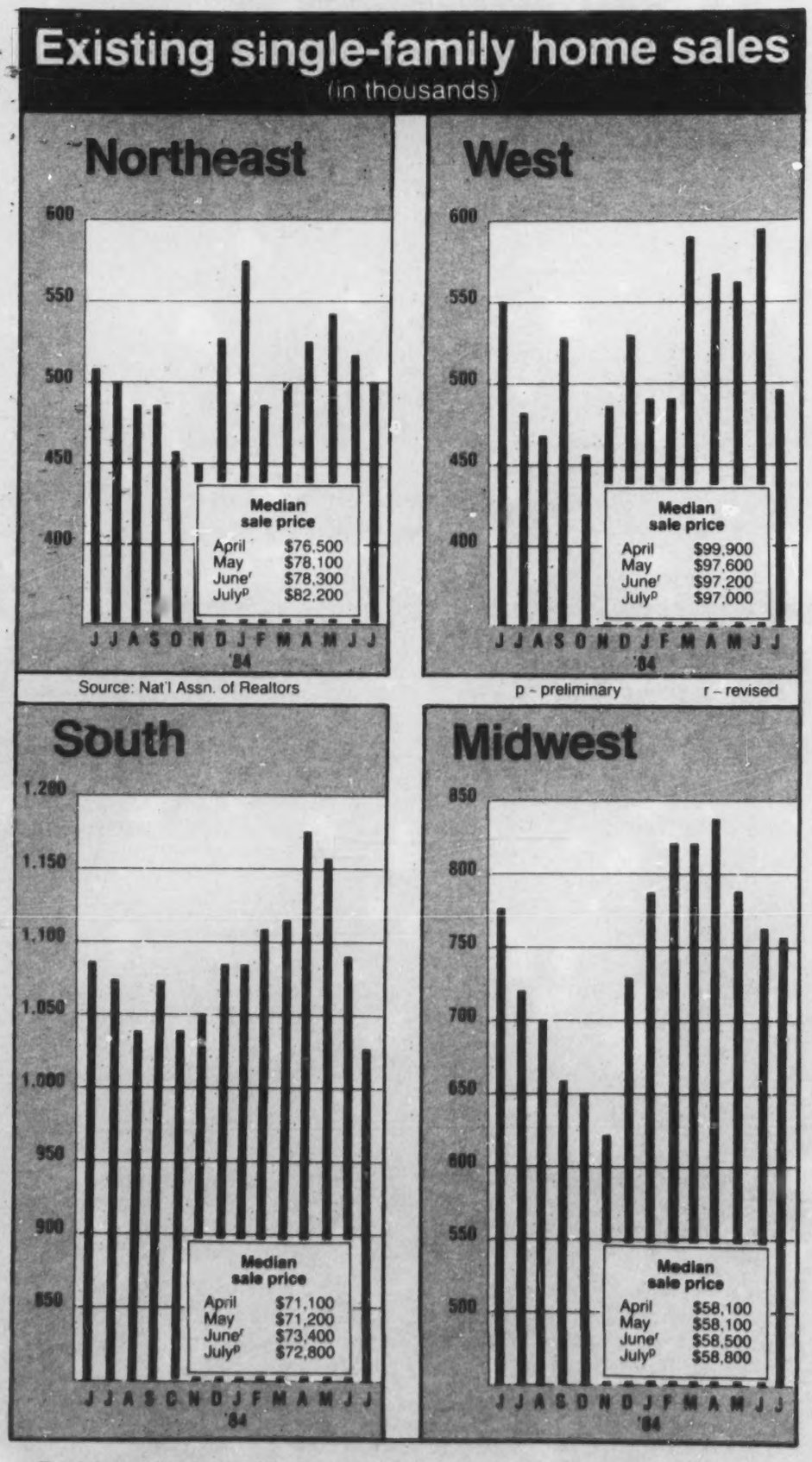
"With three months of declining resale activity data now in, it appears that the home resale recovery passed its peak at a level more than one million units short of the previous recovery peak and without having satisfied the nation's underlying and pent-up demand for housing," said Dr. Jack Carlson, the NAR's chief economist.

Carlson blamed high interest rates for preventing the existing single-family home sales market from recovering.

"Even adjustable-rate mortgages, which carry lower initial interest rates than their fixed-rate counterparts, have not been able to soften the blow of high interest rates sufficiently to allow the housing recovery to continue," he added.

According to the Federal Home Loan Bank Board's lender survey in July, effective initial commitment rates for ARMs with rate caps averaged 12.87%, up from 12.56% in June. ARMs without caps averaged 13.18%, compared with 12.95% the previous month. The average effective commitment rate for fixed-rate loans was 15.20% in July, up from June's 14.97%.

Carlson predicted that due to continuing high interest rates, existing home sales activity will decline modestly in the months ahead.



Existing single-family home sales in July dropped for the third consecutive month to 2.78 million units, seasonally adjusted, according to the National Assn. of Realtors.

The biggest decrease occurred in the West, where the seasonally adjusted annual rate fell 16.9% to 490,000 units. The Northeast experienced a 5.7% decline, and the South saw a 4.6% drop in the annual rate.

The median sale price of an existing single-family home climbed $900 in July to $74,700.

SALES & EARNINGS

Company	Period Ended	Current Sales*	Year-Ago Sales*	% Change	Current Earnings*	Year-Ago Earnings*	% Change
Color Tile	6/30-1 yr. 6/30-1 mon.	$282,700 24,700	$241,006 18,800	17.3 31.0	$13,900 —	$13,067 —	6.7 —
Forest City Enterprises	7/31-6 mon. 7/31-2nd qtr.	170,737 98,490	164,325 91,473	3.9 7.7	759 2,650	4,758 3,578	(84.0) (25.9)
The Home Depot	7/29-2nd qtr. 7/29-6 mon.	119,000 214,900	66,600 109,600	79.0 96.0	3,800 —	3,400 —	11.8 —
Lowe's	7/31-1 mon.	180,200	168,411	7.0	—	—	—
Payless Cashways	7/31-1 mon.	101,400	89,500	13.0	—	—	—

*$ in thousands

Source: Company reports

STOCK PRICES

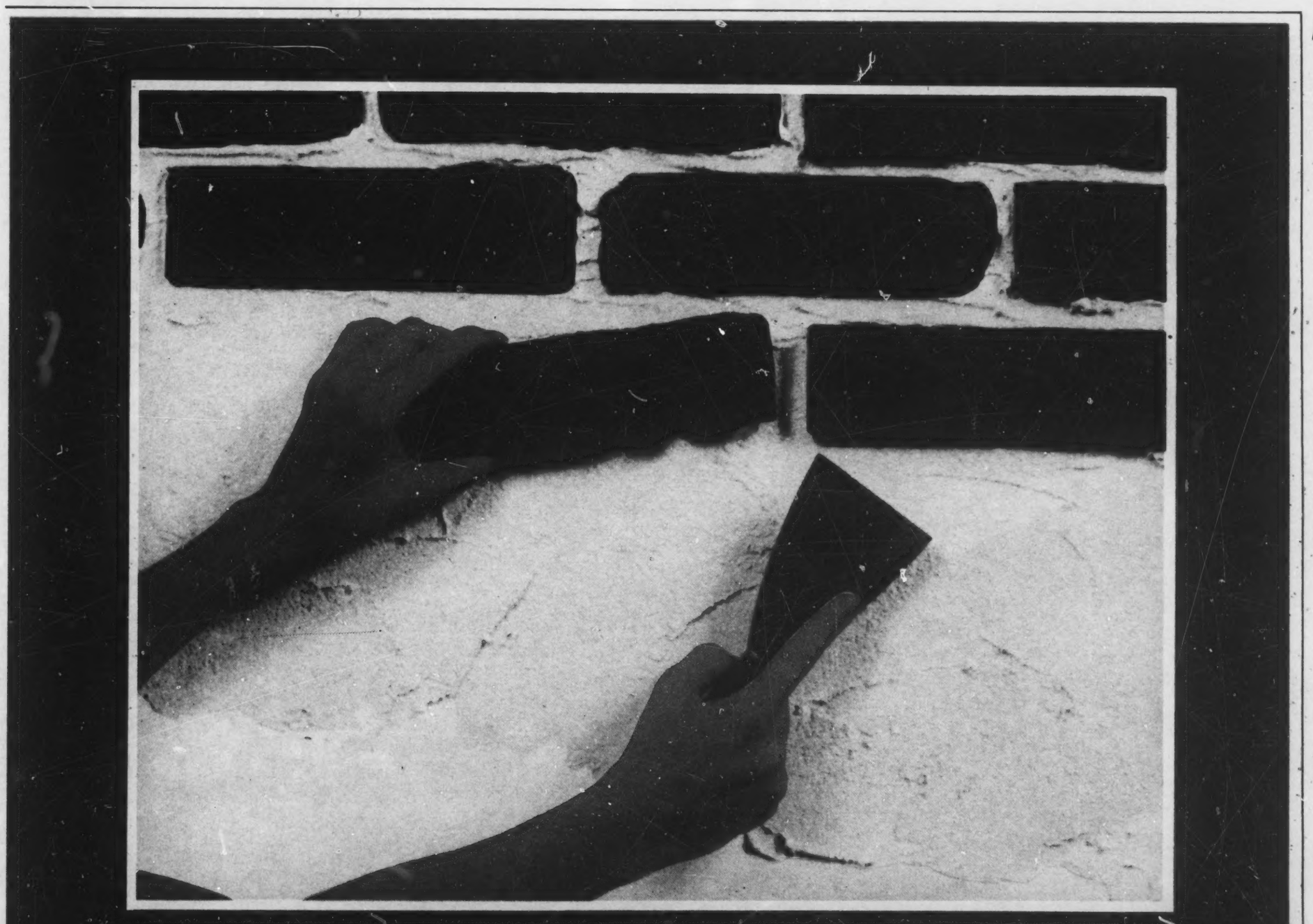
		As of 9/4	52-week High	52-week Low	P/E Ratio
Boise Cascade (NYSE)		40⅜	45	32½	13
Edison Bros. Stores (NYSE) [Handyman, Homer's]		35	44¾	33¾	8
Evans Products (NYSE) [Alamo Ent., Grossman's, Moore's, Hubbard & Johnson, Lindsley]		5	16	4¾	—
Forest City (AMEX)	A	16¾	20⅛	13⅝	—
	B	16¾	20½	13	—
W. R. Grace (NYSE) [Angels, Cashway, Channel, Handy City, Handy Dan, Orchard]		41⅜	50⅜	36½	11
Home Depot (NYSE)		15⅜	31¾	14	30
Lowe's (NYSE)		19¾	27⅜	16¼	13
Michigan General (AMEX) [Diamond Lumber]		8⅛	14	4⅝	81
Pay 'N Pak (NYSE)		16¼	20⅛	12¾	14
Payless Cashways (NYSE) [Furrow]		17⅛	27½	13½	14
Scotty's (NYSE)		13¾	17	11⅜	10
Southwest Forest Industries (NYSE) [Knox Lumber]		18	22½	12¼	—
Standard Brands Paint (NYSE)		18⅝	24¼	16½	10

Nasdaq—over-the-counter stocks

		As of 9/4	52-week High	52-week Low	P/E Ratio
Color Tile		16	18¼	13⅝	—
Hechinger	A	17¾	24¼	13½	—
	B	18¼	24½	14	—
Homecrafters Warehouse		11½	17½	11	—
National Lumber		5½	13¼	5¼	—
Pay 'n Save		21¾	29¼	14⅜	—

Over-the-counter stocks

	As of 9/4 Bid	As of 9/4 Asked	52-week High (Bid)	52-week Low (Bid)
Erb Lumber	19	21½	25¼	17
Hines Lumber	36	38	41½	25½
Home Centers of America	10⅝	10¾	15½	6⅜
Scotts Seaboard [Scott's]	1⅞	2¼	5	1⅜
Wolohan Lumber	4⅜	4⅝	7½	4



FINANCIAL NEWS

Standard Brands 2nd qtr. sales up 2.5% to $84.8M

TORRANCE, Calif. — Standard Brands Paint Co., operator of 111 retail centers in nine western states, had gains in both sales and earnings for its second quarter ended July 29.

Sales for the second quarter advanced 2.5% to $84.8 million from $82.8 million for the comparable period in fiscal 1983. Net earnings for the quarter were $6.4 million, or 58¢ per share, up 1.2% from net income of $6.3 million, or 57¢ per share, for the like quarter in 1983.

For the first six months of 1984, sales were up 8.1% to $162.6 million and net earnings increased 12.1% to $11 million.

Stuart D. Buchalter, chairman and ceo of Standard Brands, said company results were impacted by a slowdown in sales "due to increased competition in the Phoenix market," where the chain competes against such DIY chains as Payless Cashways, O'Malley, Home Depot and Angels.

Buchalter also said sales were impacted by "the overwhelming success of the summer Olympics, which preoccupied customers in the southern California area."

Pay 'n Save 2nd quarter earnings plummet by 64%

SEATTLE — Pay 'n Save said a second-quarter earnings drop of 64% was in part attributable to a weakness in gross margins at its 69-unit Ernst Home Center division.

Sales were flat in the Ernst division for the three months ended July 28. Companywide sales totaled $342.2 million, a 14% gain over the period a year ago. Earnings were $3.07 million compared with earnings of $8.48 million for the year-earlier period.

Company spokesman Jim Konschuh said Ernst eliminated its high-margin sporting goods department in the second quarter, contributing to lower margins overall in the home center chain. Ernst units are beginning a chainwide revamp program emphasizing big-ticket projects.

Vice chairman Cal Hendricks said the lower earnings were also caused by disappointing same-store sales gains, the closure of six Pay 'n Save drug stores in California and start-up costs associated with two new businesses, Price Savers Membership Warehouse and Northwestern Drug Co.

Palmer Lewis posts 10% earnings decline during second qtr.

AUBURN, Wash. — Palmer G. Lewis reported a 10% decline in earnings to $497,000, or 15¢ per share, on a 20% gain in sales to $40.3 million in the second quarter ended July 25. That compared with year-earlier net income of $554,000, or 20¢ per share, on sales of $33.5 million.

For the six-month period, sales were $69.4 million, up 17% from the same period in 1983, and earnings were $773,000, or 25¢ a share, compared with earnings of $697,000, or 29¢ per share, for the same 1983 period.

Company officials said the second quarter results were in part attributable to a combination of higher interest rates and a downturn in the Alaska economy. During the quarter, the company also experienced inventory losses primarily due to falling commodity prices, especially lumber and plywood.

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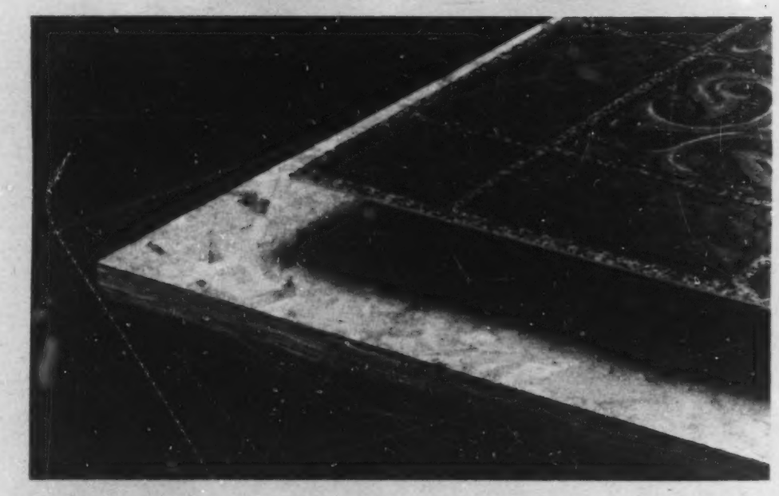

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BLANDEX

LUMBER REPORT

Yellow lights in lumber industry signal caution on several fronts

By Hawk Furman
Special to NHCN

The yellow lights are flashing again in the lumber industry. Retailers will do well by buying only their current needs as there is no sound reason for speculating in building lumber inventories until the green light flashes again.

Some of the indicators pointing to steady or lower prices in lumber include: production level, seasonal demand, new regulation on ARMS, an uncertain interest rate picture, the export market, and the futures market.

The beat goes on with the mills producing themselves into oblivion. Summer shutdowns for vacation and some planned curtailments helped the western s-p-f market have a rally in August that saw the price of 2x4 random length s-p-f go from $129 per thousand board feet to $149 per thousand board feet at the mill. The rally was short lived as production came back on line in force and the price by late August was in the high $120's per thousand board feet. Many mills are producing at levels that far exceed their rated capacity through the use of the newest technology and increased worker productivity. This lowers their unit cost but, at the same time, adds more lumber to the pipeline, which lowers the selling price.

Domestic demand for lumber has been tremendous all year and will continue to be excellent into fall. However, winter is approaching and consumption will fall. The National Assn. of Home Builders is reporting a substantial drop in subdivision traffic. Housing starts dropped 6.6% in July and, more significantly, permits dropped 11.7%. Permits indicate a slowing of home building in the coming months. Many economists are predicting between 1.3 million and 1.5 million housing starts for 1985.

'Unless there is some clear cut action on the deficit, psychologically there cannot be much hope for lower interest rates.'

—Hawk Furman

ARMS—Under pressure

The adjustable rate mortgage has come under increased scrutiny and regulations. The new financially sound adjustable rate mortgage will require prospective buyers to qualify at market rates. Thus, the benefits of the original discounted ARMS are diminished as fewer households will qualify for mortgages, and the Savings & Loans will have to hold more fixed rate mortgages, which they are trying to avoid because of the risk of becoming squeezed by higher rates. The bottom line is that millions of prospective home buyers will be left out of the housing market.

Uncertain interest rates

No one seems to have a clear picture as to where the interest rates are heading. Yet, many feel rates can only go higher after the election.

Gerard Griffin, public relations manager for Louisiana Pacific Corporation said, "It is clear that interest rates will go up after the election, and next year will see massive tax increases for businesses and individuals that will cut demand for wood products. We are in the traditional cyclical swing."

Unless there is some clear cut action on the deficit, psychologically, there cannot be much hope for lower interest rates.

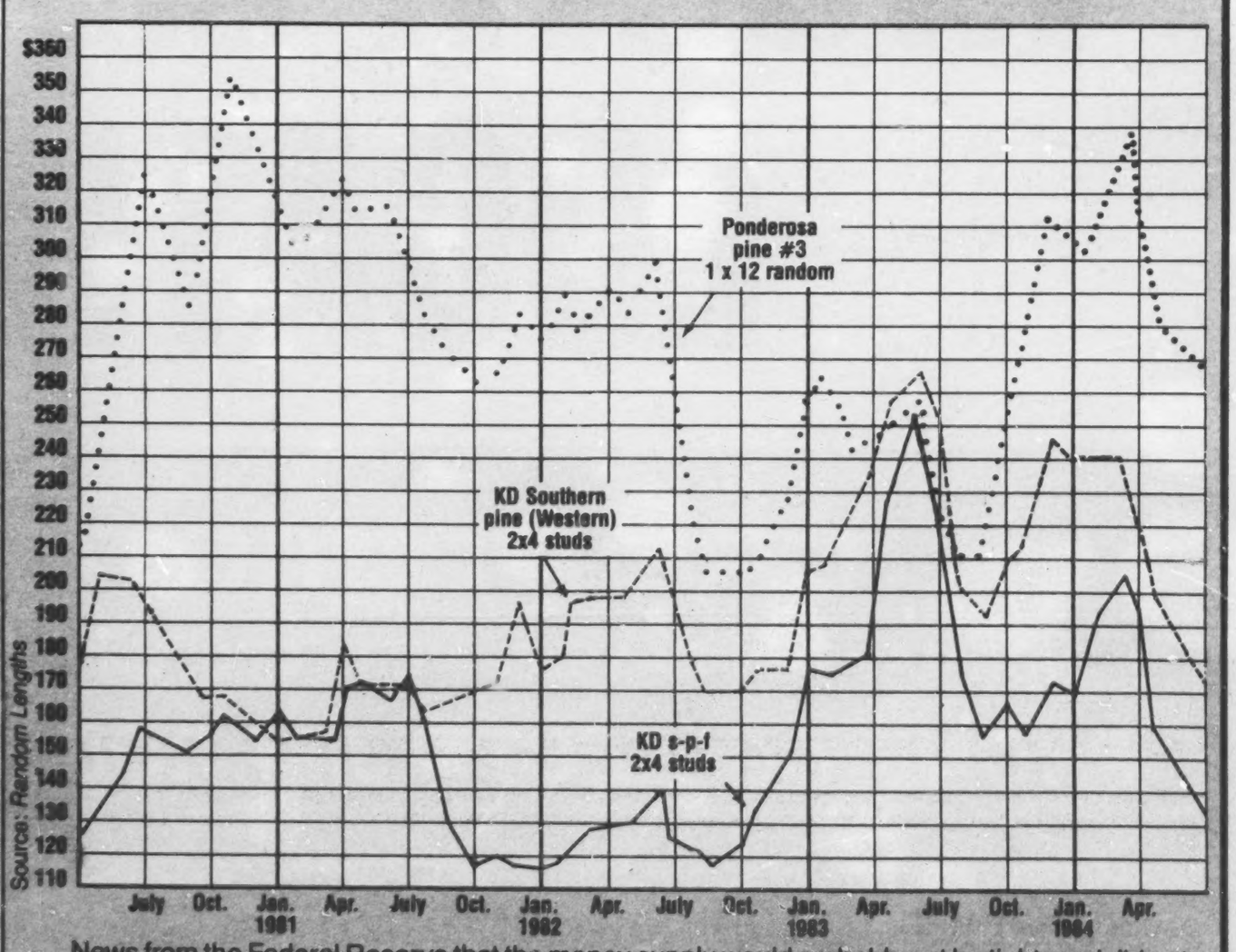
Export

The strong dollar has reduced the export business to nil. The only bright light has been some business from China. China, however, would prefer to buy logs rather than finished products. As long as the dollar stays strong, the North American mills cannot look to the world market to bail them out of their dilemma. Until the dollar weakens, the United States will continue to be the dumping ground for the lumber that would have normally been sold overseas.

Retailers have been very smart this year in their buying habits by keeping inventories low and buying lumber as they need it. There is no need to change this strategy unless we see some signs, such as: substantially lower interest rates, mill shutdowns or curtailments, a better export market, import quotas on Canadian lumber or other major factors that could affect the relationship of supply and demand.

Commodity close-up: Studs & boards

Average monthly mill prices



News from the Federal Reserve that the money supply would probably not be tightened did not come until the end of July. That month's prices, therefore, do not reflect the upward surge that followed the Fed's announcement.

Instead prices were off from June, continuing the downward trend that had been going on since winter. No. 3 ponderosa pine 1 x 12 boards sold for $269 per thousand board feet in July compared with $281 in June. Southern pine (westside) studs were at $175 per thousand board feet, down from $186 in June. And Western s-p-f studs sold for $136 per thousand board feet in July, off $10 from June's average price.